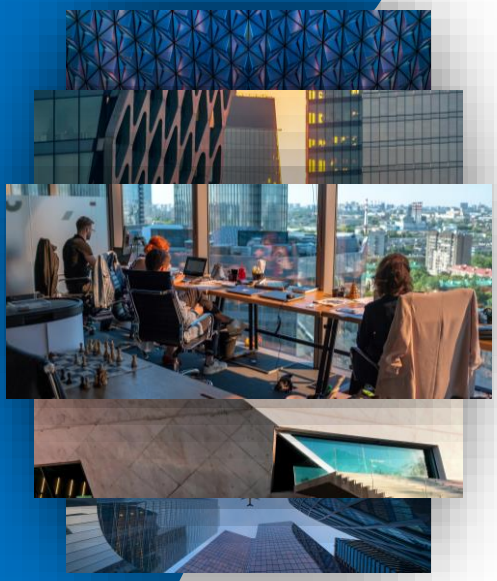
Payrolling benefits

Agenda

- Overview
- The effects of ‘payrolling’
- Example: payrolling a benefit
- Example: in-year changes
- Year-end tasks
- Questions
- Take away exercise



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Discussion

Have you started payrolling?

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What does 'payrolling' a benefit mean?

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Payrolling benefits involves

- Notional pay – includes a portion of the benefit's value
- Deducting tax throughout the current tax year
- Reporting throughout the tax year (FPS)

Instead of

- Reporting the benefit's value after end of tax year (P11D)
- HMRC adjusts tax code so that tax is calculated the following year

HMRC action

- HMRC adjusts tax codes of included employees to remove value of payrolled benefits
- Tax code may still reflect
  - Benefits that are not payrolled
  - Uncollected tax from a previous tax year

Example of effect on an individual

		Benefits in tax code	Payrolled benefits	Differs
Salary		£32,800	£32,800	No
First Aid allowance		£100	£100	No
Total gross pay	a	£32,900	£32,900	No
Private Medical Insurance		£1,200	£1,200	No
Company car		£2,000	£2,000	No
Total value of benefits	b	£3,200	£3,200	No
Taxable income	c	(a) £32,900	(a+b) £36,100	Yes
Less Personal Allowance	d	£9,370	£12,570	Yes
Taxable pay (c–d)		£23,530	£23,530	No
Tax at 20%		£4,720	£4,720	No

Payrolling a company car

Example 1a

	£
Monthly gross pay	3,000
Annual value of company car	2,400
Monthly value £2,400 / 12	200
Gross pay for tax calculation	3,200
Gross pay for regulatory limit calculation	**3,000**
Maximum tax deduction allowed	1,500

Benefit changes

Example 1b

- The annual benefit changes
  - The car is replaced on 1 October (178 days into the year)
  - The new car's annual value is £3,000
- Taxable benefit for the previous car = £1,170 (£2,400 x 178 days / 365)
- Taxable benefit for the new car = £1,536 (£3,000 x 187 days / 365)
- Annual benefit to payroll = £2,706

Benefit changes (continued)

Example 1b

- The amount already payrolled from April to September is £200 x 6 = £1,200
- Annual value £2,706 – £1,200 = £1,506 left to payroll
- £1,506 / 6 remaining pay periods = £251
- Add £251 to earnings for each remaining payroll cycle (instead of £200)

Annual statement of benefits

Employer duty to provide information to employees

- Before 1 June following end of tax year
- Name of benefits payrolled
  - With cash equivalent values
  - Relevant amount for OpRA benefits
- Name of benefits not payrolled

Class 1A NICs

- Even if all benefits are payrolled, Class 1A NICs are due annually
- Calculation
  - 13.8% x total value of benefits
  - Include P11D values
- Report on P11D(b)
  - Due 6 July
  - Include payrolled and P11D benefits
- Making payment
  - By 22 July (or 19 July)

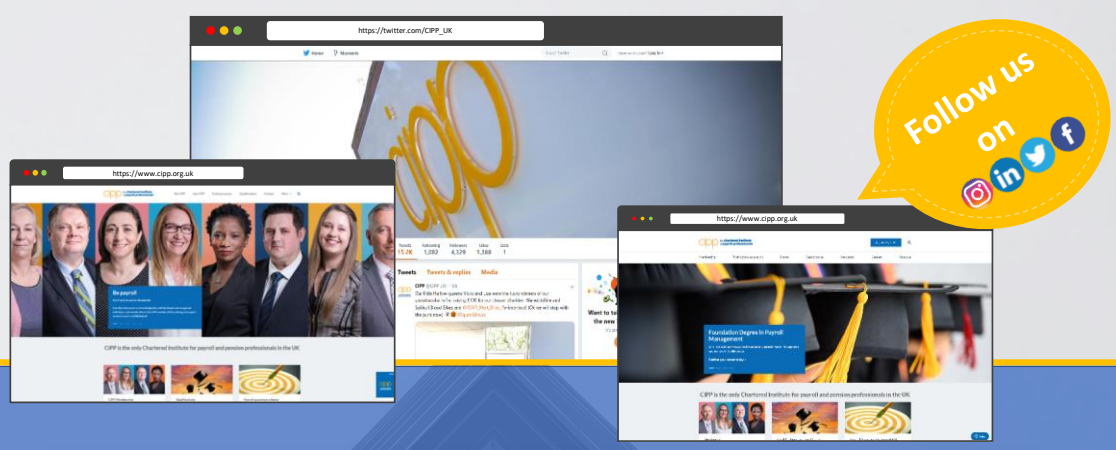
Questions?

Take away exercise

Exercise 1

	£
Annual value of original company car	3,285
Payrolled value each month was £3,285 / 12	273.75
Car is replaced	18 August 2021
Calendar days left in the tax year	231
Annual value of the new company car	£4,380
The payroll is run	Monthly
The change was received in	September

1) The apportioned value of the first car, based on 134 days is: £_____
2) The apportioned value of the new car, based on 231 calendar days is: £_____
3) The new annual value is: £_____
4) Less ___ months already payrolled leaves £____ remaining
5) Split across ___ pay periods, this requires £___ notional pay to be added each month



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Live chat also available

Policy Hub resources
www.cipp.org.uk

Policy Team's 'Payroll: need to know'
https://www.cipp.org.uk/my-cipp/policy-hub/payroll-need-to-know.html

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